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August 22, 2013

To: Supervisor Mark Ridley-Thomas, Chairman
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

Executive Summary

This memorandum contains reports on the following:

- **Pursuit of County Position to Support SB 57 (Lieu)**, which would prohibit sex offender parolees from removing an electronic monitoring device and would impose specific punishments for violations of this condition.
- **Status of County-Advocacy Legislation**
 - **County-sponsored SB 360 (Padilla)** - related to certification, piloting and funding of new voting systems, passed the Assembly Appropriations Committee on August 21, 2013.
 - **County-supported AB 1054 (Chesbro)** - related to rates paid by counties for placements at Institutions for Mental Diseases, passed the Senate Floor on August 19, 2013, and now proceeds to the Governor.

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- **Status of Legislation of County Interest**
 - **AB 300 (Perea)** - related to the enactment of the Prepaid Mobile Telephony Service Surcharge Collection Act, passed the Senate Governance and Finance Committee on August 21, 2013.
 - **Joint Legislative Audit Committee.** A report on the committee's action related to an audit request of the Drug Medi-Cal Program.
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Pursuit of County Position on Legislation

SB 57 (Lieu), which as amended on August 5, 2013, would prohibit a person who is required to register as a sex offender and who is subject to parole supervision from removing an electronic, Global Positioning System (GPS), or other monitoring device affixed as a condition of parole. SB 57 would require, upon a first violation, the parole authority to revoke the person's parole and impose a mandatory 180-day period of incarceration to be served in actual custody. The bill also would require, upon a second or subsequent violation, the parole authority to revoke the person's parole and impose a mandatory 365-day period of incarceration to be served in actual custody.

Existing law requires sex offenders to be monitored electronically with GPS technology by the California Department of Corrections and Rehabilitation (CDCR) upon release from custody to parole. Any parolee who violates the rules and conditions of their release, including tampering with or disabling an electronic monitor, may be found in violation of the terms of their parole. A specific punishment for such a violation is not prescribed in law and has been at the discretion of the parole officer or the Bureau of Parole Hearings.

According to 2012 statistics from CDCR, 2,300 sex offender parolees absconded from supervision and removed or disabled their GPS monitor. This equates to approximately 30 percent of all sex offender parolees. In the same year, over 2,700 warrants were issued for sex offenders who were suspected of tampering with or disabling their GPS bracelet. From 2010 to 2012, the percentage of sex offenders for whom a warrant was issued for disabling a GPS monitor rose from 32 percent to 55 percent.

Specifically, SB 57 would prohibit sex offenders who are subject to parole supervision from removing an electronic, GPS or other monitoring device and would require the parole authority to revoke parole and impose mandatory periods of incarceration for an offender found to be in violation of this condition of parole. The bill stipulates that upon a first violation an offender be sentenced to 180 days of incarceration and, upon a

second or subsequent violation, 365 days of incarceration. SB 57 further stipulates that these periods of incarceration be served in actual custody and prohibits individuals from earning any time credits towards early release. As result of AB 109 and the 2011 Public Safety Realignment, periods of incarceration for parole violations must be served in county jail.

Consistent with the Board's August 20, 2013 adoption of Supervisor Antonovich's motion to support SB 57, **the Sacramento advocates will pursue passage of this bill.**

SB 57 is currently on the Assembly Appropriations Suspense File and will be considered on or before August 30, 2013. If passed by the Assembly Appropriations Committee, the bill would proceed to the Assembly Floor and then back to the Senate for concurrence in Assembly amendments.

SB 57 is sponsored by the Los Angeles District Attorney and supported by: the Los Angeles Sheriff's Department; the Los Angeles Probation Officers Union; the Association for Los Angeles Deputy Sheriff's; the Los Angeles Police Protective Leave; the Kern County Board of Supervisors, among other organizations. SB 57 is opposed by the American Civil Liberties Union, California Attorneys for Criminal Justice, Legal Services for Prisoners with Children, and Taxpayers for Improving Public Safety.

Status of County Advocacy Legislation

County-sponsored SB 360 (Padilla), which as amended on August 6, 2013, would: 1) require a specified State certification and testing process for voting systems; 2) allow local jurisdictions to pilot publicly-owned voting systems; and 3) allow Voting Modernization Funds to be used for the research and development of voting systems, passed the Assembly Appropriations Committee by a vote of 12 to 5 on August 21, 2013. This measure now proceeds to the Assembly Floor.

County-supported AB 1054 (Chesbro), which as amended on April 11, 2013, would reduce the annual rate increase paid by counties for placements at Institutions for Mental Diseases from 4.7 percent to 3.5 percent effective July 1, 2014, passed the Senate Floor by a vote of 37 to 0 on August 19, 2013. This measure now proceeds to the Governor.

Status of Legislation of County Interest

AB 300 (Perea), which as amended on August 21, 2013, is an urgency measure that would: 1) enact the Prepaid Mobile Telephony Service Surcharge Collection Act; 2) on and after January 1, 2015, suspend the authority of a local jurisdiction to impose a utility user tax (UUT) on the consumption of prepaid communications service and would instead require that the applied UUT rate be consistent with a predetermined rate established through a specified tiered rate structure; 3) suspend the authority of a local jurisdiction to impose a UUT that applies to prepaid mobile telephony service, access to communication services, and/or access to local 911 emergency telephone systems and would instead require the charge rate applied under any ordinance to be at the specified rates; and 4) specify that a change in a UUT rate or access charge rate resulting from either the rate limitations or the end of the suspension period is not subject to voter approval under either State statute or the Constitution. AB 300 passed the Senate Governance and Finance Committee, as amended, by a vote of 7 to 0 on August 21, 2013. This measure now proceeds to the Senate Appropriations Committee.

Joint Legislative Audit Committee and Drug Medi-Cal

On August 21, 2013, the Joint Legislative Audit Committee (Committee) approved, by a vote of 13 to 0, a request by Senator Ted Lieu and Assemblymember Adam Grey to audit California's Drug Medi-Cal Program (DMC Program) due to alleged fraud and abuse in the system. At the hearing, Senator Lieu stated that he represents part of Los Angeles County where many of the alleged cases of fraud occurred. Los Angeles County was named as one of three counties to be audited with the remaining two counties to be selected by the State Auditor.

As part of the audit, the State Auditor will review the most recent five fiscal years and, to the extent possible, identify the magnitude of fraudulent activity related to outpatient drug treatment centers funded through the DMC Program. Specifically, the State Auditor will be reviewing: 1) the fiscal impact of any illegal or inappropriate activity; 2) the extent and timeliness of any corrective action taken; and 3) the reasons why corrective actions may not have been taken. The State Auditor will also seek to determine whether or not the number of compliance regulators and investigators is sufficient to effectively address the occurrence of fraudulent activity and to assess whether there are other significant issues in the administration of the DMC Program and make recommendations of statutory or regulatory changes that could prevent fraud in the program.

Each Supervisor
August 22, 2013
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The audit is expected to commence in the fall of 2013 and will take approximately four months to complete.

Attachment I contains the State Auditor's analysis of the above request and the audit request letter by Senator Lieu.

We will continue to keep you advised.

WTF:RA
MR:KA:IGEA:ma

Attachment

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations
Buddy Program Participants



Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

2013-119 California's Drug Medi-Cal Program

ANALYSIS OF AUDIT REQUEST

August 21, 2013

I. AUDIT REQUEST

Senator Lieu and Assemblymember Gray are requesting an audit of California's Drug Medi-Cal program and a selection of county agencies responsible for administering the program.

II. BACKGROUND

The Drug Medi-Cal Treatment (Drug Medi-Cal) program, formerly under the purview of the California Department of Alcohol and Drug Programs, is administered by the California Department of Health Care Services (department). The department is responsible for providing administrative and fiscal oversight, monitoring, and auditing of statewide Drug Medi-Cal program services.

State law permits the department to enter into contracts with each county for the provision of alcohol and drug use services within the county service area. Drug Medi-Cal substance abuse services include outpatient drug-free treatment, which is an outpatient service aimed at stabilizing and rehabilitating persons with a substance abuse diagnosis. If the county decides not to enter into a contract with the department, the department is required to contract for Drug Medi-Cal services with certified Drug Medi-Cal providers directly, through qualifying individual counties, or other qualified individuals and entities. Counties the department contracts with are required to implement and maintain a system of fiscal disbursement and controls over providers of Drug Medi-Cal services, process reimbursement claims, and ensure those claims are within the established billing rates.

Recent media reports have alleged fraud in the Drug Medi-Cal program, stating that clinics recruit patients with no drug abuse history or bill for clients that do not exist. The members are concerned that ineffective oversight and fraud is wasting taxpayer dollars and eroding public confidence in the program.

III. AUDIT SCOPE AND OBJECTIVES

The audit by the California State Auditor (state auditor) will provide independently developed and verified information related to the Drug Medi-Cal Treatment (Drug Medi-Cal) program and will include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. Identify the roles and responsibilities of the appropriate state and county level entities overseeing outpatient drug-free treatment clinics and determine whether there is effective coordination between these entities.
3. Determine whether the policies, processes, and practices used to approve eligible outpatient drug-free treatment providers are appropriate and effective.
4. For a period of the most recent five fiscal years, to the extent possible, identify the extent of fraudulent activity related to outpatient drug-free treatment centers funded through the Drug Medi-Cal program in Los Angeles County and two other counties chosen by the state auditor, and for a selection of transactions, determine the following:
 - (a) The fiscal impact of any illegal or inappropriate activity.
 - (b) The extent and timeliness of any corrective action taken.
 - (c) The reasons why corrective actions may not have been taken in instances where there were none.
5. Determine whether the number of compliance regulators and investigators is reasonably sufficient to effectively address the occurrence of fraudulent activity.
6. Review and assess any other issues that are significant to the administration of the Drug Medi-Cal program and to the extent possible, make recommendations of statutory or regulatory changes that may help further prevent fraud in the program.

IV. OTHER WORK IN THE GENERAL AREA

None relevant to the Drug Medi-Cal program.

V. RESOURCE REQUIREMENTS

We estimate that this audit would require approximately 2,960 hours of audit work at a cost of approximately \$316,720 plus travel and administrative expenses and the costs related to an

outside consultant, if necessary. We will conduct this audit using our existing budget authority to the extent funding is available for audits approved by the Joint Legislative Audit Committee.

VI. REQUIRED DATE OF COMPLETION

The members did not request a completion date for this audit.



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State Auditor

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California State Senate

SENATOR
TED W. LIEU

TWENTY-EIGHTH SENATE DISTRICT



CHAIR
BUSINESS, PROFESSIONS AND
ECONOMIC DEVELOPMENT

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INSURANCE
VETERANS AFFAIRS

August 7, 2013

Members of the Committee
Joint Legislative Audit Committee
1020 N Street, Room 107
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2013-119

Dear Chairman Gray,

I respectfully request the Joint Legislative Audit Committee approve an audit of California's Drug Medi-Cal program and a selection of the county agencies responsible for administering the program. Recent investigations by CNN and the Center for Investigative Reporting (CIR) have exposed potentially massive fraud in the Drug Medi-Cal system. (Attachment 1, CNN Article, "Rehab Racket: Frauds, felons, and fakes," July 29, 2013; Attachment 2, CIR Article, "California rehab clinics bill taxpayers for fake clients, additions," July 29, 2013). Drug Medi-Cal has undoubtedly helped countless numbers of people recover from substance abuse. Ineffective oversight and fraud in the system, however, siphons funds away from legitimate clinics, wastes taxpayers dollars, and undercuts the public's support for the program.

I represent Los Angeles County, where many of the examples of fraud apparently occurred. One counselor told investigators that "fraud was rampant from Long Beach to Los Angeles." (Atch 1). Another "speculated that we were seeing the tip of an iceberg ... I would have said 50 percent of the programs out there are potentially fraudulent in L.A. County." (Atch 1). One example involved a drug rehabilitation clinic that saw approximately 30 patients but allegedly billed taxpayers for 179 patients. (Atch 1). Other examples allegedly involved clinics paying patients to show up so that the clinic could bill more to the state; counselors abandoning sessions; clinics billing for people who had no drug problems; and clinics billing for dead people. (Atch 2).

For many years, I have advocated rehabilitation as a crucial tool in helping to mitigate California's problem of prison/jail overcrowding and high recidivism rates. The alleged fraud in the Drug Medi-Cal program is not only outrageous, but potentially damaging to efforts to utilize rehabilitation as a solution to California's incarceration and drug abuse problems.

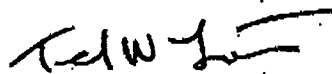
The audit will help give policymakers the information necessary to change the system and restore the public's confidence in a vital program. The audit should include at least three counties: Los Angeles

County, and two others chosen by the State Auditor, and should address, but not be limited to, the following:

1. Examining the last five fiscal years, determine how extensive is the alleged fraud related to the outpatient drug free rehabilitation clinics with respect to the Drug Medi-Cal program, and to the extent possible, determine the fiscal impact of the fraud.
2. In instances where rehabilitation clinics were found to have engaged in illegal or inappropriate activity, was corrective action taken on a timely basis. If not, why not?
3. Determine the effectiveness of the process of coordinated oversight between state and county regulators. Is it confusing and conflicting? What changes, if any, should be made to regulatory oversight policies?
4. How effective is the process to ensure that felons and other prohibited persons are not approved to run some of these clinics?
5. Are there enough regulators and investigators to adequately prevent fraud from occurring?
6. What laws or regulations need to be changed to prevent further fraud in the Drug Medi-Cal program?

Thank you for your consideration of this request.

Sincerely,



Ted W. Lieu
State Senator



Adam C. Gray
Assemblymember

Attachments:

1. CNN Article, *"Rehab Racket: Frauds, felons, and fakes,"* July 29, 2013
2. Center for Investigative Reporting Article, *"California rehab clinics bill taxpayers for fake clients, additions,"* July 29, 2013.

<http://www.cnn.com/2013/07/29/health/rehab-racket-siu-cir-part-one/>

Rehab racket: Frauds, felons and fakes

July 30, 2013

(CNN) — Next to a smoke shop deep in the San Fernando Valley, employees at Able Family Support pull back the metal gates and open the doors to catch an unfettered flow of government money.

The clinic, reimbursed by taxpayers for each client it sees, offers in-person drug and alcohol counseling.

And Able Family is thriving, according to its billing records. In real life, on this hazy Southern California day, business moves at a slower pace.

No more than 30 people trickle into the rehab center until the doors are locked 10 hours later. Unbeknownst to clinic staff, reporters were stationed in parked cars counting the people who came and went on April 4.

The counting resumed a month later when the clinic submitted its bill to Los Angeles County seeking reimbursement — not for 30 people, but for 179. The government promptly paid it — \$6,400 for clients Able Family reported it saw April 4.

Troubled drug rehab clinics in a rehab racket plagued by regulatory holes, paperwork trumps reality, a yearlong investigation by The Center for Investigative Reporting and CNN has found.

Thousands of pages of government records and dozens of interviews with counselors, patients and regulators reveal a widespread scheme to bilk the state's Medicaid system, the nation's largest. The populous Los Angeles region is one of the nation's top hot spots for health care fraud, and former state officials agree it is also ground zero for the rehab racket.

Drug Medi-Cal paid out \$94 million in the past two fiscal years to 56 clinics in Southern California that have shown signs of deception or questionable billing practices, representing half of all public funding to the program, CIR and CNN found. Over the past six years, more than half a billion dollars have poured into the program statewide.

The simple stakeout on April 4 raises questions about the adequacy of government oversight of the program to help the poor and addicted, built on an honor system in which honor often is lacking. Oversight is marred by infrequent and cursory inspections and by a failure to act even when red flags appear.

Government officials who try to root out fraud clash with weak regulations, bureaucratic apathy and corruption in their own ranks: Once open, bad clinics rarely are shut down. CIR and CNN identified a dozen clinics caught cheating the system that not only remained in business, but also were rewarded with more public funds.

When told of the April 4 stakeout at Able Family, county regulators said they now have questions about whether the payments were legitimate. The findings merit a closer review but "look very incriminating," said a spokeswoman for Los Angeles County's substance abuse department. Able Family operates a small satellite clinic near downtown, the county noted — but a security guard there said about 25 people came to that office each day.

The clinic's director, Alexander Ferdman, would not explain the discrepancy.

"I can't explain, because you will cut and paste and edit, and my answers will be to a totally different question," Ferdman said in a telephone interview, before hanging up.

CIR and CNN have exposed how clinics use coercion and forgery to defraud a taxpayer-funded program meant to help struggling addicts. The investigation also found that people ineligible to run Medi-Cal clinics did not just slip through the cracks — they walked through doors regulators left wide open.

Some never should have been allowed in.

Felons are supposed to be blocked from running clinics. That didn't stop Ferdman. He entered the rehab racket two years after leaving a Texas prison, where he served time for orchestrating an organized crime scam. Over the course of a decade, he built his clinic into a \$2 million-a-year operation — all from taxpayer money.

Those on the Medicaid blacklist aren't allowed to bill for rehab funds. But George Ilouno did so repeatedly. Convicted of defrauding the student loan program, Ilouno was barred from collecting a single Medicaid dollar. Still, the state and county paid him more than a million.

Clients who went to GB Medical Services in Long Beach and counselors who worked there described years of graft. Ilouno and his staff bribed clients to show up, they claimed. Counselors fabricated therapy sessions that never took place.

One counselor told state investigators that such fraud was "rampant from Long Beach to Los Angeles," crediting the scammers' "success to the incompetence of the ... auditors," an arrest declaration says.

Federal Medicaid authorities place responsibility for safeguarding taxpayer dollars squarely with California's Department of Health Care Services. And a year after CIR filed its first public records request about Drug Medi-Cal fraud, the department moved earlier this month to temporarily cut funding to 16 rehab clinics.

Attach 1

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But according to interviews with former state officials, the department has fielded concerns about rehab clinic fraud for at least five years yet has done almost nothing to combat it.

"Everyone talked the talk, everyone was zero tolerance for fraud and abuse, but no one would do anything about it," said Joy Jarfors, who retired in 2010 from a manager position at the Department of Alcohol and Drug Programs, which shared the job of clinic oversight until last July.

Responsibility for policing Drug Medi-Cal is split. The state certifies the clinics, but counties handle the money and shoulder the financial risk when mistakes are made. Both county and state analysts audit the clinics annually.

To many inside government and out, it has not been clear who's in charge. In that vacuum, fraud has thrived.

The alcohol and drug department this month merged with the Department of Health Care Services. Diana Dooley, secretary of the governor's Health and Human Services Agency, has overseen both departments since December 2010 but declined to give a sit-down interview about what went wrong.

In a statement announcing the temporary suspensions, Department of Health Care Services Director Toby Douglas said the 16 clinic sites have been referred to the state's Department of Justice. On Wednesday, the health department's chief deputy director, Karen Johnson, said her staff also would be "fanning out statewide to review every rehab facility."

Douglas' deputy in charge of audits and investigations, Bruce Lim, said the action was spurred by media inquiries, one of many ways regulators identify problems. Investigators are reviewing issues raised by CIR and CNN, including questions about clinics with felons at the helm, he added.

"That's a top priority for us and a concern," Lim said.

Lim, who has been the investigations chief for three years, said he could not identify the clinics or address criticism that his department has long ignored the problem.

"I can't speak for the past," he said.

Past fraud conviction

On September 29, 2003, a state alcohol and drug program analyst arrived at a busy Panorama City strip mall to certify the state's newest Drug Medi-Cal clinic, Able Family Support.

Karen Morrison scrutinized the governing body's meeting schedule and reviewed staff résumés. Records from the visit offer no hint that she asked -- or knew -- about the criminal record of the man who greeted her.

Morrison, now a real estate agent, said she does not recall the visit or a provider with a felony history.

But Alexander Ferdman was on parole at the time, having served one year of a seven-year sentence for engaging in organized crime. Prosecutors in Texas had pegged Ferdman as the ringleader of a scam that robbed auto insurers of millions. An indictment from the Travis County district attorney's office says a team of fixers staged crashes and recruited actual crash victims as pawns to generate fake legal and medical bills.

One witness described Ferdman as the man who paid off operatives from a briefcase full of cash.

Although the state can grant special exceptions for felons to be Medi-Cal providers, it doesn't appear that regulators did so for Ferdman. When he moved to California to open a rehab clinic, nothing in state records indicated that regulators knew about Ferdman's organized crime conviction.

A standard form in 2003 asked about clinic leaders' convictions, but missed the mark, inquiring only about fraud against the government. Ferdman defrauded private insurers. And by late 2011, when Ferdman was asked in a routine disclosure form whether he had been convicted in the last 10 years, he could honestly respond "no."

Ferdman told reporters that he accepted a plea agreement in the Texas case because he was facing "99 years." He denied any wrongdoing.

"There was no fraud, and there was no record of it in any way," Ferdman said. "It's a very long story."

Soon after the state cleared his rehab center to open in 2003, Ferdman made some questionable spending decisions.

A state review of the center's 2004 budget revealed that public funds intended to help low-income addicts covered \$10,000 in gifts and travel, including \$605 spent at a Palm Springs spa resort, a \$586 crab feast, \$108 for flowers and a Betty Boop souvenir. In his written response to state auditors, Ferdman defended the spending as "business purchases" necessary for "promoting and outreach" for the clinic.

Taxpayers also spent \$2,000 a month on car expenses for Ferdman and Able Family's co-founder, Leonid Aksert. Ferdman told auditors that the travel stipend was approved by the center's board of directors. State records show that the five-member board included Ferdman, Aksert and their wives.

Attach 1

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State auditors asked Los Angeles County to repay the state \$68,000 provided to Able Family in 2004. Ultimately, Able Family repaid half of the money the state wanted back.

That wouldn't be the last time Ferdman and Able Family came to the attention of auditors.

Medical license denied, clinic approved

Rebecca Lira was disgusted in 2001 as she watched fraud seep into the rehab system she had helped build two decades before. "I really wanted to close all of them down, bust all of them, if you will," she said.

A deputy director with the state Department of Alcohol and Drug Programs, Lira decided to confront the problem by grilling people who applied to launch new clinics.

She said she called applicants and quizzed them about their treatment philosophy. Many hung up and called back in a half-hour with answers. Others just hung up. "Those are the fly-by-nights -- those are the programs that are, in my opinion ... abusing the system," Lira said.

One of the providers she questioned was the program director at GB Medical Services, George Ilouno. Lira concluded that he had "no clue," records show.

Ilouno's problems ran much deeper than limited knowledge of addiction treatment.

State medical regulators had blocked Ilouno from becoming a physician's assistant in 2001, noting that he had been convicted of lying on student loan applications. The medical board concluded that Ilouno's "multiple acts of wrongdoing demonstrated an ongoing pattern of fraud."

As a result, the inspector general for the federal Health and Human Services Department put Ilouno on its blacklist, preventing him from billing Medicaid. State Medi-Cal authorities added him to their banned list as well.

Lira's staff vetted GB Medical Services after Ilouno and his wife, Benedicta, co-founded GB Medical in June 2006. Required paperwork filed two months later asked directly: Were any of GB Medical's owners suspended from billing Medicaid or convicted of misdemeanor government fraud?

Benedicta Ilouno indicated she was the sole owner and had a clean record.

Lira's staff, busy asking the couple for staff résumés and a detailed budget, had documents detailing George Ilouno's co-founder role. But there is no record that they followed up.

By late 2007, the Ilounos were in business, according to a letter signed by Lira staffer Allen Scott, a licensing and certification supervisor. Former staff members say George Ilouno ran day-to-day operations.

And, they say, the rehab clinic was scamming from the start.

Counselor Art Hill filed a complaint with state regulators in 2008 charging that staff paid young women \$30 to \$40 to sign papers saying they were getting drug counseling at GB Medical.

Hill's concerns eventually would be validated after his complaint touched off a criminal probe that led to pleas of no contest by three employees this year. But back in 2008, a state alcohol and drug program investigator deemed his claims unsubstantiated after interviewing staff and clients.

The addict-turned-counselor told CIR that clients spoke openly during his group therapy sessions about being paid to attend. Hill included their comments in his write-ups on the sessions, but he said George Ilouno ordered him to substitute made-up tales of addicts striving to get sober.

One time, Hill said, Ilouno asked him to giftwrap bottles of alcohol, including Hennessy cognac, for the rehab patients. Hill said he won't work in Drug Medi-Cal again after seeing clients exploited.

"As far as staying sober or trying to be clean," he said, "the program is not helping them."

On behalf of Ilouno, Malibu criminal defense attorney Robert Helfend denied that rehab clients were given alcohol or that session notes were changed. He did not address the claim that clients were paid, but denied that "clients demanded rising sums of money or financial favors."

Kanisha Dickerson insists she and four of her teenage children each received at least \$5 whenever they attended counseling sessions at GB Medical in 2008. Ilouno would sometimes call her into his office and pay her himself, she said.

Her daughter, Darshaye Miles, 19, said she bought marijuana with the \$5 she earned going to rehab. Little counseling or guidance was offered, she said, even to people who needed it.

"I really want the world to hear the story about these alcohol programs because I think that they just scam," Miles said. "They (are) just doing it to get their money."

The state's probe of GB Medical continued for half a decade, while more than \$1 million in Medi-Cal funds went to the operation. In that timeframe, at least 15 state and county officials signed off on certifications, reviews and funding increases.

Attach 1

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Once the state Department of Justice launched a formal investigation in 2008, authorities could have followed a state law calling on them to suspend Ilouno's Drug Medi-Cal operation. But they didn't.

Even after a Department of Justice investigator served Los Angeles County with a court order for the clinic's financial records in 2010, the county gave GB Medical a \$90,000 annual raise. Its taxpayer funding reached \$440,000 last year.

John Viernes Jr., director of Substance Abuse Prevention and Control in Los Angeles County, said he approved the raise after a Department of Justice agent said the investigation was on a back burner and might be closed.

Viernes also said he took into account the fact that his auditors didn't find anything incriminating in their own annual review.

This March, Ilouno was charged with Medi-Cal fraud, grand theft and giving kickbacks. Three counselors were charged with fraud and grand theft; a clinic driver was charged with paying kickbacks. The arrest declaration included an analysis of billing records for the fiscal year ending in 2010, which found \$64,400 had been obtained fraudulently.

Ilouno has pleaded not guilty. His attorney, Helfend, said in a letter to CIR that counselors acted without GB Medical's knowledge or consent. GB Medical, he added, is prepared to work on a repayment plan, if that becomes necessary.

Of the counselors charged, two pleaded no contest to felony Medi-Cal fraud. The driver pleaded no contest to a misdemeanor charge of paying kickbacks, and the fourth staff member has not yet entered a plea.

After Ilouno's arrest, GB Medical remained open and continued collecting public funds. Its billing slowed dramatically, though, with three clients one day and five the next.

Asked why funding had continued, Los Angeles County spokeswoman Lydia Becerra said her department was unaware that Ilouno had been arrested.

Approached by reporters in the parking lot of his Long Beach clinic in April, Ilouno declined to comment and hopped in his Mercedes, his tires squealing as he sped away. In July, a sign posted on GB Medical's door said the clinic no longer provides Drug Medi-Cal services.

Difficulty policing fraud

Around the time the state alcohol and drug department cleared GB Medical to operate, the only full-time investigator on the department's team was growing disillusioned.

That was in 2008, a turning point in state oversight. Soon, the larger Department of Health Care Services would gain more control through an unusual series of events, but it would wait years -- until earlier this month -- to initiate major changes.

Drug and alcohol investigator Lorna Flores recalls turning down bribes from clinics even as she tried to clean up the program.

"I speculated that we were seeing the tip of an iceberg," said Flores, who today works in the private rehab sector with her former boss, Rebecca Lira. "At that time, I would have said 50 percent of the programs out there are potentially fraudulent in L.A. County." Flores left state service soon after Lira. In 2008, disheartened that she could not seem to solve the problem.

Then, things took a strange turn.

Gary Goethe assumed control of the small Drug Medi-Cal investigations unit. In 2009, the FBI arrested him on charges of extorting cash from a clinic owner. Goethe pleaded guilty but characterizes his actions as trying to root out fraud through an overzealous sting.

"I was really trying to elicit wrongdoing from providers," Goethe said in an interview. "I was left out to dry by myself, with no support from the department on my fraud efforts."

Karen Johnson, the chief deputy director of the Department of Health Care Services, said Goethe's arrest undermined investigative efforts.

After Goethe's arrest, a state drug and alcohol official ordered staff to stop passing cases of suspected fraud directly to criminal investigators. Instead, cases would be referred to health services, which would decide whether to refer them to law enforcement.

Jarfors, then the Drug Medi-Cal supervisor, said the edict pushed her staff too far from the action of prosecuting fraud.

Little had come out of monthly anti-fraud meetings led by investigation leaders in the Department of Health Care Services, Jarfors claimed. "We practically stood on tables just screaming, we brought it up at every opportunity that we could, and nothing would be done," she said.

Daniel Steinhart, Jarfors' boss, agreed that the anti-fraud meetings were all talk and no action. And he said he knows his order to shift decision-making to the Department of Health Care Services disappointed his staff. They believed the larger department viewed rehab clinic cases as minor compared with other health scams.

"The general belief was (the rehab cases) were small potatoes -- they weren't interested," Steinhart said.

Funding hard to cut off

At Feb 1

4 of 5

The head of L.A. County's substance abuse department for five years is at once part of the problem and part of the solution.

John Viernes has worked with other county substance abuse leaders to point out flaws in the Drug Medi-Cal counseling program and has advocated for other styles of treatment proven to turn around lives.

But he's also signed off on raises for providers repeatedly accused of cheating or caught in deceptive billing practices. Viernes says he has little choice.

The state allows almost anyone to open a clinic, he said. And once it's running, owners are entitled to public funding for as many patients as they sign up under a 1994 court ruling, *Sobky v. Smoley*, which establishes Medi-Cal patients' right to drug treatment. The county, according to Viernes, is obligated to contract with state-certified clinics and sign off on their funding.

"This program is just not well run," Viernes said of state oversight.

Viernes' deputy Michael Kerr supervises a staff of seven "contract monitors" who inspect 120 counseling clinics annually, plus 20 more methadone clinics. Each clinic may have one or more sites; some have more than a dozen.

Around the state, Drug Medi-Cal clinics submit bills and regularly receive payment from the counties within weeks. State and county auditors discover taxpayer money has been squandered only if they later review the clinics' client charts.

The county's enforcement vigor has waned considerably in recent years. Viernes signed off on a blitz of nine contract terminations in 2009, shutting down one Wilshire Boulevard clinic that paid two clients \$20 each to sign admission paperwork used to generate \$11,000 in bills for phantom care.

His team cut off another pair of clinics -- in Los Angeles and Compton -- caught billing for the same clients' care at the same time, eight miles apart.

Even as complaints and evidence of cheating piled up, the county pulled back -- and closed no clinics this year. Viernes said officials have shifted toward helping clinics improve when they fail to meet standards.

The state alcohol and drug department has suspended or terminated certification for at least three clinics since 2009, under a state law that calls for such action during a fraud probe. The Department of Health Care Services declined to identify any cases in which it had cut off a clinic until its crackdown in July.

Funding still flows

Seven years after Alexander Ferdman had his Palm Springs spending spree, auditors in L.A. County began to question whether some of the counseling sessions at his clinic actually took place.

Able Family billed for a group therapy session held on a Sunday when the counseling center was closed, according to a July 2011 county billing review. The 10 a.m. on-site review also turned up notes recounting results of a group therapy session that had not yet been held.

Despite having funds at Able Family Support docked by regulators twice, for a Palm Springs spending spree and fraudulent billing, Alexander Ferdman continued to draw increasing amounts of taxpayer money -- up to \$2 million this year. (Photo: CNN)

County auditors issued a report warning Ferdman that the county considers such findings evidence of "fraudulent practices" and that the clinic could lose its contract. The county ultimately docked him \$7,000.

And then the funding boosts came. Viernes approved an increase in Able Family's funding from \$1.6 million in 2011 to nearly \$2 million in 2013. Kerr, the county's Drug Medi-Cal supervisor, said such funding increases are approved routinely if clinics fix problems cited in audits.

When reporters laid out the results of their April 2013 stakeout to county regulators, officials pledged to follow up. County auditors went out to dig through paperwork at the clinic last week, only to find Able Family closed.

The clinic's medical director, Dr. Howard Oliver, told CNN that Able Family had been suspended by the state -- a month after reporters confronted California's top health official about Ferdman's record and after the county was notified about the stakeout results.

The doctor praised Ferdman, saying he was helping people and "I've never seen him do anything wrong."

Back in Texas, defense attorney Barrett Hansen was bemused to learn of Ferdman's 10-year career in government contracting. Hansen worked as a prosecutor on Ferdman's insurance fraud case.

"If the state of California is willing to throw money at him," she said, "he's willing to catch it."

Attach 1

595

California rehab clinics bill taxpayers for fake clients, addictions

Jul 29, 2013

Victoria Byers did not drink alcohol. She did not abuse drugs. But when she was a teenager in foster care, several times a month, she would board a van at her group home and go to rehab.

Byers couldn't figure out why she had to take drug tests and sit in group therapy sessions on addiction at So Cal Health Services, a clinic tucked in an office park in Riverside, Calif.

"And I told them, you know, 'Why should I be here? I have no drug issue,'" said Byers, now a slow-to-smile 22-year-old.

The director of Byers' group home confirmed Byers was clean but said she sent all six girls under her care to the clinic because she didn't have enough staff to separate those with substance abuse problems.

The arrangement was strange. It was also a scam.

So Cal Health Services was ripping off taxpayers, part of a pattern of fraud by rehabilitation clinics that collect government funding to help the poor and addicted, a yearlong investigation by The Center for Investigative Reporting and CNN has found. The investigation, which included undercover surveillance and stakeouts, uncovered a rehab racket that continues to this day.

Thousands of pages of government records and dozens of interviews with counselors, patients and regulators reveal a widespread scheme to bilk the state's Medicaid system, the nation's largest. Witnesses to the fraud laid out its inner workings in minute detail, some speaking of it publicly for the first time.

In the underbelly of the Drug Medi-Cal program, clinics pad client rolls by diagnosing people like Byers with addictions they don't have. They round up mentally ill residents from board-and-care homes to sit in therapy sessions they can't follow. They lure patients in from the street by handing out cash, cigarettes and snacks. They have patients sign in for days they aren't there.

One Inglewood clinic fabricated notes and billed for "ghost clients" who never came in. They couldn't show up, a counselor discovered. Some were behind bars; one was dead.

Rehab by the numbers Inset

Even caught red-handed, operators have polished techniques to ward off official scrutiny and keep the money flowing. One Los Angeles County clinic director lodged a complaint against a government auditor, and another called on a local lawmaker for help. In both cases, it worked.

The populous Los Angeles region is one of the nation's top hot spots for health care fraud, and former state officials agree it is also ground zero for the rehab racket.

Drug Medi-Cal paid out \$94 million in the past two fiscal years to 56 clinics in Southern California that have shown signs of deception or questionable billing practices, representing half of all public funding to the program, CIR and CNN found. Over the past six years, more than half a billion dollars have poured into the program statewide.

Following a year of public records requests and questions from CIR and CNN, state regulators announced a crackdown in mid-July. The action came two and a half weeks after reporters submitted a final list of their findings.

The state Department of Health Care Services temporarily suspended 16 clinics suspected of flouting the law and pledged to tighten oversight. Officials would not identify the targeted clinics, saying the information would compromise the investigation.

But veteran operators have become adept at sidestepping trouble.

Among them was Tim Ejindu, who ran the clinic where Victoria Byers — A 22-year-old who was sent to rehab at So Cal Health Services as a teenage foster child in a group home even though she didn't have an addiction.

Nearly one-third of the foster children who showed up at Ejindu's clinics in Riverside and Pomona had no drug or alcohol problem; estimated TaMara Shearer, a former addict who worked as a supervisor.

"Any loopholes, he knows how to find them. I've watched him do it," Shearer said. "He thinks Americans are dumb."

Under pressure to diagnose teenagers with fake addictions, counselors at the clinics reverted to racial stereotypes, according to Shearer. They labeled white teens as alcohol drinkers and black or Latino teens as marijuana smokers, she said.

Ejindu did not respond to an interview request or a letter outlining allegations against him. When contacted by reporters at his clinic, he declined to answer questions, closing the clinic door and refusing to reopen it.

Joy Jarfors, a manager with the state Department of Alcohol and Drug Programs until she retired in 2010, said "fraud and abuse (are) rampant" in the system.

"I'm not the employee anymore that has to look at this every day, but I'm a taxpayer that knows that this is going on," Jarfors said.

"It angers me. And there's story after story after story about Medicaid dollars being cut from people who need the services."

Attach 2

195

The cost of failing to treat addicts is high. Drug overdose and excessive alcohol consumption are among the top causes of premature death in Los Angeles County, killing two people nearly every day. Statewide, the Legislative Analyst's Office has found taxpayers spend more than \$1 billion a year on hospital stays related to substance abuse for those on Medi-Cal.

The rehab centers promise a chance to start over in their very names, which include phrases like "new hope," "new beginning," "renew" and "U-turn." But they don't always deliver.

Vredette Hawkins was one woman who could have used some help. The South Los Angeles mother of four smoked marijuana and was under scrutiny from child welfare officials, she said, after someone accused her of using methamphetamine. She went to a nearby Drug Medi-Cal clinic a year ago to get counseling for depression. She encountered a chaotic free-for-all, a clinic filled with people who came only because they wanted money.

At Basen Inc., clients received \$5 each time they showed up, she said. Hawkins said counselors often abandoned group therapy sessions after 15 minutes, leaving clients to chat about sexual exploits and getting high. Two former Basen employees also told CIR that the clinic paid clients, although one said that the practice stopped amid worries about getting caught.

A county investigation last year found "extremely serious violations," such as falsified paperwork, but couldn't substantiate allegations that Basen was paying clients.

"The only one that's basically benefitting from all this," Hawkins said, "is ... the person that's running the program."

Bassey Enun-Abara, the counseling center's executive director, said he does not pay clients and disputed Hawkins' description of the clinic. "I can't believe a client would tell you that," he said.

As director of the state Department of Health Care Services, Toby Douglas has primary responsibility for Medi-Cal, including the rehab system. Douglas, appointed by Gov. Jerry Brown in 2011, declined repeated interview requests.

Douglas' boss, Secretary Diana Dooley of California's Health and Human Services Agency, also declined interview requests.

Approached by CNN in June outside a public meeting in Sacramento, Dooley headed for a restroom, which was locked.

She then said: "The state of California takes fraud very seriously, and there are many investigations that are underway. The allegations - all allegations are given full and fair consideration."

Dooley added that her agency's fraud and investigation unit is "one of the best in the country." She ended the brief conversation with, "That's all I have to say."

Asked again whether Douglas would sit down for an interview, as she stepped into an elevator, Dooley put her hand over CNN's camera and called for security. Later, her spokesman offered a sit-down interview with Douglas if CNN discarded the footage of Dooley. CNN and CIR would not agree to that condition.

A month later, Douglas announced his crackdown.

The agency's chief deputy director, Karen Johnson, declined to discuss accusations about specific clinics and acknowledged that the state does not yet "know the expanse of the problem."

Unreachable clients

Addiction counselor Tamara Askew discovered something wrong soon after she started working at Pride Health Services in Inglewood, southwest of downtown L.A., in 2009.

Askew grabbed a stack of files and began contacting patients to introduce herself. That was harder than she had figured. Some were in jail, Askew said. Several never showed up. One man she reached out to was dead.

"After that, it was like, 'Are you kidding me?'" Askew said in an interview. "God rest his soul but, I'm like, 'How are you billing (for him)?'"

When it came time to bill Drug Medi-Cal for services rendered, Askew said her boss, Godfrey Nwogene, wanted her to submit paperwork showing that all of those clients, living and dead, had been attending counseling sessions.

The more clients Pride Health Services reported treating, the more money it could charge the government.

"He basically said, 'How do you think you're going to get paid?'" Askew said.

When Askew would not sign off on billing for clients she hadn't seen, her boss unplugged her computer, she said, and told her to leave.

Askew sued Pride, claiming she was fired for refusing to falsify records. Pride Health Services contended in court filings that Askew was laid off because there wasn't enough work. Askew and Pride eventually settled, and a judge ordered the clinic to pay her \$15,500.

The clinic kept reaping more than \$800,000 annually in government funding, despite persistent allegations of fraud and serious violations documented by auditors.

Atch 2

285

This year, a whistle-blower told Los Angeles County officials that Nwogene still was billing for "ghost clients." When confronted by county regulators, Nwogene and his staff denied wrongdoing.

Without hard evidence, auditors couldn't substantiate the allegations. They might have had more luck if they had visited Pride on a Wednesday.

Inside Pride's Inglewood clinic, between a dairy mart and a gas station on busy Crenshaw Boulevard, a small lobby was empty April 3, save for artificial plants and a 1990s-era anti-alcohol poster.

A receptionist told reporters there were no counseling sessions that day.

The office offered no group therapy on Wednesdays, she specified, in an exchange caught on a video camera hidden in a watch.

Yet billing records obtained by CIR and CNN show that Pride Health Services charged taxpayers for counseling 60 people at the clinic that day, at a cost of about \$1,600. The clinic was reimbursed for 62 patients the following Wednesday as well.

Nwogene, whose salary has reached as high as \$120,000 a year, did not respond to requests for an interview or to a letter seeking responses to specific allegations. When reporters asked for him at Pride's Inglewood clinic, a staffer denied wrongdoing. Workers then called police and closed the office mid-day.

Fake diagnoses among foster children

In California's public drug rehab program, clients equal cash. State and federal taxpayer money flows to the local privately run clinics based on the number of people they serve. The counseling is free to those on Medi-Cal.

California spent nearly \$186 million on the program in the past two fiscal years, according to figures from the Department of Health Care Services. That doesn't include methadone clinics for heroin addicts, a separate wing of Drug Medi-Cal.

The state has the nation's largest population of people who qualify for the benefit, a pool poised to grow sharply under the Affordable Care Act. But recent history suggests that expansion might shovel more funding to clinics that game the system.

A specialty of So Cal Health Services, the Riverside clinic to which Victoria Byers — A 22-year-old who was sent to rehab at So Cal Health Services as a teenage foster child in a group home even though she didn't have an addiction, was sent, was diagnosing foster children with fabricated drug and alcohol problems and billing taxpayers for the unneeded services, according to former employees and whistle-blower complaints.

The clinic billed Riverside County between \$31 and \$75 for each counseling session a child attended, documents show.

"You'd have to make up a summary of them trying this drug and make up scenarios of how they tried it, how they got it," said Nadine Cornelius, a former counselor. "It was all lies."

Cornelius tried making her group therapy sessions educational, she said during an interview at a diner near her San Bernardino County home. But eventually, she gave up. Instead, she said she let the teenagers play bingo and watch movies.

An anonymous whistle-blower told county officials that So Cal was paying group homes for "access" to the foster children. Byers' group home director, Angelina Farmer, told CIR that wasn't the case.

Riverside County cut So Cal Health Services' contract in 2010 because so many of its clients had dropped out. That failure was easier to prove than the fake diagnoses of teenagers, according to Karen Kane, the county's substance abuse program administrator.

Kane said her agency was especially concerned that a false addiction diagnosis could negatively affect the foster children later in life. "Our goal was to stop them from harming people and get them out of the business — and that's what we did," Kane said.

By then, the county already had paid So Cal \$1 million, dating back to mid-2007.

After the closure, clinic director Tim Ejindu moved some staff members from Riverside to his other clinic in eastern Los Angeles County. There, under the red-tiled roof of the Pomona Alcohol and Drug Recovery Center, problems persisted.

Shearer, the Pomona center's assistant program manager before she left last year, said the overriding goal of the operation was to "get money." Staff billed for therapy that didn't happen, she said. They billed for clients who didn't show up. They billed for pizza parties and basketball games as if they were counseling sessions.

Ejindu was authoritarian and intimidating, said Shearer, who worked for him for six years. Inexperienced counselors making \$9 an hour were under constant stress, she said, caught between doing something unethical and losing their jobs if they refused.

"And he made it very clear that your job depended on what you do and what you don't do," Shearer said.

When a government auditor showed up for an annual review, she said Ejindu would have his staff sneak files into his office so he could examine them. Then, Shearer said, he would send the files back to the counselor to change before the auditor saw them.

"Mind you, there's no way to ... go back and correct," she said. "There's only forgery."

Ejindu, who tax records show makes \$150,000 a year running the clinic, branched out last year to provide addiction counseling at seven middle and high schools in the Pomona Unified School District.

Attach 2

2 of 5

A school district spokesman, Ryan Hightower, said there have been complaints about the program but would not elaborate except to say, "Whenever something is brought up, we deal with it."

Fighting audits

As business boomed at the Pomona clinic, Mary Brantley couldn't keep up.

Brantley started as a counselor at Ejindu's Riverside clinic. After it closed, she moved on to the Pomona clinic. She said under Ejindu's watch, she was expected to produce paperwork and signatures for rehab counseling that never took place.

"When he had the schools in on it, I left because I couldn't do that much forging," Brantley said.

Ejindu's strategies for handling regulators became clear after Shearer took her story to Los Angeles County authorities in September. As an auditor investigated Shearer's accusations of fraud, Ejindu offered the investigator a job, according to a county email. The auditor turned him down.

The 2012 investigation determined that the Pomona clinic had billed for 230 counseling sessions at times when the counselors were off work or at lunch. The inspector discovered that Ejindu himself had filled out, signed and dated patient records for a future date. Six treatment plans and medical waivers lacked the required doctor's signature when the auditor first examined them. Weeks later, physician signatures appeared on the same documents, along with dates indicating they had been signed before the audit, according to the investigation report.

The tricks used to fudge paperwork had become so prevalent in the Drug Medi-Cal program that John Viernes Jr., Los Angeles County's Substance Abuse Prevention and Control director, warned all rehab providers in a 2010 memo that the practices were fraudulent and "will result in immediate contract termination." Viernes also warned that any offer of a bribe to a county staffer would be grounds for termination.

Over and over again, however, that threat fizzled.

Ejindu fought back. He filed a complaint against the county auditor, citing "illegal pilfering of documents." The allegations against his clinic, Ejindu wrote, came from disgruntled ex-employees who had been fired for not meeting standards.

"This agency has been around for 15 years for a very good reason," he wrote. "We are a pillar in our community and well respected." Ejindu met with Viernes, who asked another county division to investigate the complaint of auditor misconduct. The inquiry determined that the auditor didn't have permission to take papers off the desks of clinic staff, Viernes said. As a result, he said, the findings of serious violations were "set aside."

Meanwhile, the Pomona clinic continued to rake in cash as part of its \$800,000 annual contract. Vans still dropped off teenagers for rehab, and Shearer has grown cynical about the value of blowing the whistle.

"The funny thing is that it has been reported, many times, and nothing has ever been done," she said. "He's always found a way to circumvent that."

Looking back, Victoria Byers is upset, too. It bothers her that somewhere in official patient records, someone labeled her with an addiction she didn't have.

"Maybe if I wanted to get a job and that comes up, maybe I can't get that job because of drugs," she said. "I didn't do drugs, and that's kind of messed up."

'Ghost clients'

At Pride Health Services, addictions weren't the only things that Stephanie Jackson Parnell made up.

The former employee said the clinic operator, Godfrey Nwogerie — Executive director of Pride Health Services, with clinics in Inglewood and Los Angeles, which has been accused of billing for "ghost clients," would ask her to bill Drug Medi-Cal for clients she'd never seen.

"I just had to come up with stories," she said. "Using your imagination. Like as if it's someone standing right there."

Pride staffers would go through files of old clients to check whether their Medi-Cal numbers remained active, Parnell said. Each active number would become a Pride client again.

Parnell, who left and filed a whistle-blower complaint with the state in 2009, said she invented life stories for her fake clients. She still can rattle off vignettes of rehab fiction: "Client stated that she went to a party and relapsed. ... Client is saying she doesn't want to go out with those same friends."

Or sometimes, Stephanie Jackson Parnell — Former counselor at Pride Health Services, who said she made up stories for clients she'd never seen — just copied and pasted notes from one file to another.

"It got so raggedy ... I would put one floppy disk in there and do 15 charts with everybody saying the same thing," she recalled.

Attach 2

4 of 5

When people did come in, Parnell would take down their information, and Pride would bill for them even if they never came back, she said. When the fake clients were due to complete their rehab program, Pride employees created diplomas to put in their files, she said.

"I was getting freaked out about it, but the money was good," said Parnell, who made \$13 an hour.

Whistle-blower emails sent to a Los Angeles County auditor in 2011 accuse Nwogene of leaning hard on his workers to carry out the scheme.

"I refuse to do any ghost writing because that is illegal," one of the emails said. "The owner of Pride Health (Godfrey) had an emergency meeting last week and stated that if we didn't want to do the paper work the Pride Health way, then we should resign." Nwogene seemed unstoppable. A Pride employee wrote in another email to an investigator, "One thing im kinda scared of is that he has told us that no one has been able and will never be able to take him down."

Nwogene's skill at avoiding a crackdown played out in full force in 2011, as he faced heat from both state and county authorities. An auditor sat in on a group therapy session — but no one showed up. The auditor reported that Pride "appear(s) to have developed fraudulent documentation to support their billing claims," according to a county memo.

"A serious problem has come up with this agency," one county regulator wrote in an email obtained under the California Public Records Act. "ALL ROSTERS SIGNED IN THE SAME HANDWRITING by, it appears ... the same person and all billing for this program will be disallowed."

The county froze funding and conducted a follow-up investigation that found "extremely grave violations" and "deficiencies that warrant the termination" of Pride's contract. Los Angeles County drafted letters notifying state officials and Nwogene that it was cutting off funding.

The state Department of Alcohol and Drug Programs drafted a letter to temporarily suspend Pride from the Drug Medi-Cal program because of "severe deficiencies" from 2005 to 2011.

Neither of the letters, according to county and state representatives, ever was sent.

Political intervention

Nwogene had been asking for help from the office of Mark Ridley-Thomas, one of five county supervisors. Now chairman of the county board, the former state senator represents the district where Pride operates.

The politician's aide, Salya Mohamedy, inquired, and Viernes John Viernes — Director of Los Angeles County Substance Abuse Prevention and Control, which contracts with rehab clinics, the county substance abuse prevention director, detailed the clinic's violations and allegations of fraud. Still, Mohamedy asked Viernes to set up a meeting "so that we can resolve this matter once and for all."

A receptionist at Pride Health Services in Inglewood, Calif., said there were no counselling sessions on April 3. But the clinic billed taxpayers about \$1,600 for serving 60 clients that day, records show.

Internal emails show that this was not an unusual request: During the second half of 2011, Ridley-Thomas' aide contacted Viernes on behalf of half a dozen other rehab providers facing problems with regulators.

Nwogene met with Viernes on Aug. 10, 2011. In a thank-you letter to Ridley-Thomas' aide, Nwogene called the meeting successful. "Your intervention opened the door to dialogue," Nwogene wrote. "That dialogue led to a resolution."

While Pride may have had flaws, Nwogene wrote, "reckless and mean spirited" county staff treated the organization unfairly. In the end, Pride Health Services' contract wouldn't be terminated. The funding spigot was on again.

In an interview, Viernes expressed frustration that supervisors urged him to meet with clinic owners even when they knew about the serious problems found by auditors.

"I get emails from the supervisors, (saying), 'When are these people gonna get paid!'" Viernes said.

Mark Ridley-Thomas — Chairman of the Los Angeles County Board of Supervisors and former state senator, whose office has contacted administrator John Viernes on behalf of rehab clinics facing problems with regulators, top health deputy, Yolanda Vera, denied pressuring Viernes. The lawmaker's office got involved, she said, to "make sure that these agencies at least are getting some access and having their concerns addressed."

Asked about the CIR/CNN findings regarding Pride's billing, Vera expressed concern. "If true," she said, "I would ask the question as to why are we contracting with this agency."

But Viernes said the message is pretty clear: Help the clinics improve instead of cutting them off.

"There's so much political pressure on us about giving them a second chance," he added. "After all, we're a rehab agency, we believe in giving second chances."

And, as CIR and CNN found, government regulators will dole out second and third chances to just about anyone.

AHeh

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TWENTY EIGHTH SENATE DISTRICT



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August 7, 2013

Members of the Committee
Joint Legislative Audit Committee
1020 N Street, Room 107
Sacramento, CA 95814

2013-119

Dear Chairman Gray,

I respectfully request the Joint Legislative Audit Committee approve an audit of California's Drug Medi-Cal program and a selection of the county agencies responsible for administering the program. Recent investigations by CNN and the Center for Investigative Reporting (CIR) have exposed potentially massive fraud in the Drug Medi-Cal system. (Attachment 1, CNN Article, "*Rehab Rocket: Frauds, felons, and fakes*," July 29, 2013; Attachment 2, CIR Article, "*California rehab clinics bill taxpayers for fake clients, additions*," July 29, 2013). Drug Medi-Cal has undoubtedly helped countless numbers of people recover from substance abuse. Ineffective oversight and fraud in the system, however, siphons funds away from legitimate clinics, wastes taxpayers dollars, and undercuts the public's support for the program.

I represent Los Angeles County, where many of the examples of fraud apparently occurred. One counselor told investigators that "fraud was rampant from Long Beach to Los Angeles." (Atch 1). Another "speculated that we were seeing the tip of an iceberg ... I would have said 50 percent of the programs out there are potentially fraudulent in L.A. County." (Atch 1). One example involved a drug rehabilitation clinic that saw approximately 30 patients but allegedly billed taxpayers for 179 patients. (Atch 1). Other examples allegedly involved clinics paying patients to show up so that the clinic could bill more to the state; counselors abandoning sessions; clinics billing for people who had no drug problems; and clinics billing for dead people. (Atch 2).

For many years, I have advocated rehabilitation as a crucial tool in helping to mitigate California's problem of prison/jail overcrowding and high recidivism rates. The alleged fraud in the Drug Medi-Cal program is not only outrageous, but potentially damaging to efforts to utilize rehabilitation as a solution to California's incarceration and drug abuse problems.

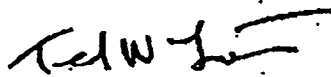
The audit will help give policymakers the information necessary to change the system and restore the public's confidence in a vital program. The audit should include at least three counties: Los Angeles

County, and two others chosen by the State Auditor, and should address, but not be limited to, the following:

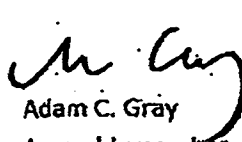
1. Examining the last five fiscal years, determine how extensive is the alleged fraud related to the outpatient drug free rehabilitation clinics with respect to the Drug Medi-Cal program, and to the extent possible, determine the fiscal impact of the fraud.
2. In instances where rehabilitation clinics were found to have engaged in illegal or inappropriate activity, was corrective action taken on a timely basis. If not, why not?
3. Determine the effectiveness of the process of coordinated oversight between state and county regulators. Is it confusing and conflicting? What changes, if any, should be made to regulatory oversight policies?
4. How effective is the process to ensure that felons and other prohibited persons are not approved to run some of these clinics?
5. Are there enough regulators and investigators to adequately prevent fraud from occurring?
6. What laws or regulations need to be changed to prevent further fraud in the Drug Medi-Cal program?

Thank you for your consideration of this request.

Sincerely,



Ted W. Lieu
State Senator



Adam C. Gray
Assemblymember

Attachments:

1. CNN Article, "Rehab Racket: Frauds, felons, and fakes," July 29, 2013
2. Center for Investigative Reporting Article, "California rehab clinics bill taxpayers for fake clients, additions," July 29, 2013.